

Exhibit No.:

Issues: Test Period Revenues

Witness: Michael L. Brosch

Sponsoring Party: MoPSC Staff

Case Nos. EO-97-144 and EC-97-362

**UTILICORP UNITED INC.
MISSOURI PUBLIC SERVICE COMPANY**

CASE NOS. EO-97-144 & EC-97-362

FILED

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PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

MICHAEL L. BROSCH

**Jefferson City, Missouri
March, 1997**

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**UTILICORP UNITED, INC.
MISSOURI PUBLIC SERVICE DIVISION
CASE NOS. EO-97-144 AND EC-97-362**

1 Q. Please state your name and business address.

2 A. My name is Michael L. Brosch. My business address is 740 North Blue Parkway, Suite 204,
3 Lee's Summit, Missouri 64063.

4

5 Q. By whom are you employed?

6 A. I am a principal in the firm Utilitech, Inc. , a consulting firm engaged primarily in utility rate
7 work. The firm's business and my responsibilities are related to special services work for
8 utility regulatory clients, including rate case reviews, cost of service analyses, jurisdictional
9 and class cost allocations, financial studies, rate design analyses, and special investigations
10 related to utility operations and ratemaking issues.

11

12 Q. On whose behalf are you appearing in this proceeding?

13 A. I am appearing on behalf of the Staff of the Missouri Public Service Commission ("Staff").

14

15 Q. Will you summarize your educational background and professional experience in the field
16 of utility regulation?

1 A. I graduated from the University of Missouri, Kansas City, in 1978 with a Bachelor of
2 Business Administration Degree, majoring in accounting. I hold a CPA Certificate in the
3 State of Missouri and in the State of Kansas. I am a member of the American Institute of
4 Certified Public Accountants, the Missouri Society of Certified Public Accountants, and the
5 Kansas Society of Certified Public Accountants. From 1978 to 1981, I served as a public
6 utility accountant with the Staff of the Missouri Public Service Commission. While
7 employed by the Missouri Commission, I participated in rate case examinations involving
8 electric, gas, water, steam, transit, and telephone utilities operating in Missouri. During my
9 employment with the Staff, I was involved in Missouri Public Service Company Case Nos.
10 ER-79-60, ER-80-117 and ER-80-118.

11
12 In December, 1981, I accepted employment with Troupe Kehoe Whiteaker & Kent in its
13 public utility department. While with Troupe Kehoe Whiteaker & Kent, I was involved in
14 the review, analysis, and presentation of a wide range of utility rate case issues and various
15 other utility management advisory functions for both utility company and regulatory agency
16 clients.

17
18 In May of 1983, I commenced employment with Lubow McKay Stevens and Lewis. While
19 with that firm, I was involved in numerous regulatory proceedings and directed the conduct
20 of a variety of special projects including the development of a comprehensive lead lag study
21 theory and procedures manual, a detailed analysis of utility holding company formation/

1 diversification policy issues for the Wisconsin Public Service Commission and a study of
2 electric utility interconnection and related bulk power agreements of Ohio electric utilities.

3
4 In June of 1985, Dittmer, Brosch and Associates, Inc. was organized. The firm specializes
5 in public utility regulatory and management consulting in the electric, gas,
6 telecommunications, water, and wastewater industries. As a principal of the firm, I am
7 responsible for the supervision and conduct of the firm's various regulatory projects. In
8 1992, the firm was renamed Utilitech, Inc. to coincide with the admission of Mr. Steven
9 Carver as a stockholder. Utilitech has served as consultant to the Missouri PSC Staff in the
10 last two Missouri rate cases of UtiliCorp United, Inc.- Missouri Public Service (hereinafter
11 UCU or MPS), Case Nos. ER-90-101 and ER-93-37.

12
13 I have testified before utility regulatory agencies in Arizona, Arkansas, Florida, Hawaii,
14 Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Ohio, Oklahoma, Washington and
15 Wisconsin in regulatory proceedings involving electric, gas, telephone, water, sewer, transit,
16 and steam utilities.

17
18 Q. What is the purpose of your testimony?

19 A. I have reviewed and analyzed the test period sales and revenues of MPS at current rate levels,
20 except for the kwh sales effects of weather which are addressed in the testimony of Staff
21 witness Ms. Lena Mantle. I sponsor Staff adjustments S-1.1 through S-1.5 to operating
22 revenues, which are for the following purposes:

1 Adjustment S-1.1- Eliminates Unbilled Revenues and restates to a billed basis
2 sales and revenues in the test period.

3 Adjustment S-1.2- Normalizes the effects of weather upon test period sales,
4 applying current rate levels to the kwh normalization
5 recommended by Staff witness Mantle.

6 Adjustment S-1.3- Annualizes sales and revenues for customers added through
7 June 30, 1996.

8 Adjustment S-1.4- Annualizes sales revenues under Economic Development
9 Rider (EDR) schedules at full tariffed rate.

10 Adjustment S-1.5- Annualizes customer sales and revenue levels for large
11 customers based upon actual experience as of June 30, 1996.

12
13 Q. How is the balance of your testimony organized?

14 A. I have organized my testimony to discuss each of these revenue adjustments in separate
15 sections of testimony, with references to underlying data request responses and analyses
16 associated with each adjustment.

17 **Elimination of Unbilled Revenues**

18 Q. What are unbilled revenues and why is it appropriate to remove the effects of unbilled
19 revenues in a rate case?

20 A. Unbilled revenues represent accounting estimates booked by the Company at the end of each
21 month to account for the kilowatt hour sales to customers through the last day of the month,
22 even though meters are not read on the last day to render actual billings for such sales. The
23 cycle billing process contributes to a continuous change in the amount of sales that MPS has
24 made at any given month-end that have not been billed to customers because of cycle billing.

1 In the test year, the net change in unbilled kwh sales and related revenue from month-
2 end December 1994 to month-end December 1995 is recorded as calendar 1995 revenue on
3 the books. Elimination of these accrued estimated revenues allows the Staff to analyze test
4 year revenues based upon actual billed data.

5 Q. Was unbilled revenue eliminated in the Company's last rate case, Case No. ER-93-37?

6 A. Yes. The adjustment I propose in this case is comparable to that which was accepted by the
7 parties in the last MPS rate case.

8 Q. What is the source for the eliminated unbilled revenue amount in the Staff's Adjustment
9 Number S-1.1, which you sponsor?

10 A. The actual per books amount of calendar 1995 unbilled revenues are eliminated, as reflected
11 in the Company's general ledger and in the response to Data Request Nos. MPSC-623 and
12 MPSC-570.

13 **Normalization of Weather**

14 Q. How were the effects of weather in the test period reviewed by Staff?

15 A. The analysis of weather effects upon test period kilowatthour sales was undertaken by Staff
16 witness Ms. Lena Mantle and is addressed in greater detail in her prefiled testimony. My
17 responsibility was to quantify the revenue impact of adjustments Ms. Mantle sponsors,
18 applied to Company-prepared weather normalization calculations.

1 Q. What did Ms. Mantle recommend be adjusted in the Company's proposed weather
2 calculations?

3 A. The Company's proposed weather adjustment was found to be acceptable for all but the
4 summer months of June, July, August and September by Ms. Mantle. Therefore, I have
5 restated the Company's adjustment to remove the summer months based upon Ms. Mantle's
6 recommendation. This restatement appears as Staff Adjustment S-1.2.

7 Q. In your earlier response, you referred to a "Company-proposed" weather adjustment. What
8 is the source for this data?

9 A. In its response to Data Request No. MPSC-257, the Company produced its calculation of the
10 adjustment required to weather normalize kwh sales and revenues in each month of 1995.
11 This Company-prepared analysis served as the starting point for Staff's weather adjustment.
12 As noted above, the summer months are believed by Ms. Mantle to required no adjustment
13 based upon the analysis conducted to date. However, I understand that data responses
14 remain outstanding in this area and Staff's work is continuing toward finalization of a more
15 precise weather normalization adjustment.

16 **Customer Annualization**

17 Q. What is the purpose of Staff's revenue adjustment number S-1.3?

18 A. This adjustment increases test period sales and revenues to reflect the customers added to the
19 residential and small commercial rate schedules through June 30, 1996. Each new customer

1 is assumed to add to test period sales at the average usage per customer from the normalized
2 calendar 1995 base test period.

3 Q. Is the annualization of customers added in this Case comparable to revenue and sales
4 adjustments made in prior MPS rate cases?

5 A. Yes.

6 Q. What is the source for the number of customers statistics employed in this adjustment?

7 A. Number of customers statistical data as well as average revenues per kwh data was derived
8 from the Company's response to Data Request No. MPSC-493. The normalized kwh usage
9 per customer in this adjustment is consistent with the Staff's weather normalization
10 adjustment discussed above.

11 Q. Why does this adjustment not include customers added that are large commercial or
12 industrial loads?

13 A. Large customers require detailed study rather than generalized (average usage) adjustment
14 for several reasons. First, when MPS adds a new large customer, that customer's usage is not
15 reasonably estimated by simple reference to average usage levels for all other industrial
16 customers. Second, MPS makes available to qualifying new customers its Economic
17 Development Rider (EDR) which causes average revenue per kwh statistics to be imprecise
18 in predicting ongoing revenue levels for new large customers. Finally, new large customers
19 may have erratic load levels initially, until construction is finalized and stable levels of

1 demand are established. Specific analysis of individual large customers is required to deal
2 with these concerns. My testimony regarding revenue adjustments S-1.4 and S-1.5 deals
3 with EDR and large customer annualizations, respectively.

4 **Economic Development Rider Revenues**

5 Q. What are Economic Development Rider Revenues?

6 A. MPS has, as part of its approved tariff, an Economic Development Rider (EDR) that defines
7 a schedule of rate discounts that apply to certain qualifying new customers or new facilities.
8 The rate discounts begin at 30 percent and decline in 5 percent intervals over the first five
9 contract years of service to the qualifying customer. Thus, EDR customers yield reduced
10 revenues that have the effect of increasing revenue requirements borne by the Company's
11 non-EDR ratepayers unless a ratemaking adjustment is made to impute foregone revenues
12 within a rate case.

13 Q. What is the purpose of your adjustment S-1.4 to test period revenues?

14 A. This adjustment annualizes the revenues from EDR customers at the Company's full tariff,
15 so as to avoid burdening the general body of ratepayers with EDR discount revenue losses.
16 The Company should be required to demonstrate to the satisfaction of the Commission that
17 discounted EDR rate levels are sufficient to recover all relevant long run marginal costs
18 associated with serving new loads added under the EDR provisions. While Staff's work in
19 this area is ongoing, no demonstration of economic justification for EDR discount recovery
20 from ratepayers has been provided by the Company.

1 Q. What data served as the source for your calculations of EDR revenue annualization?

2 A. The Company's responses to Data Request Nos. MPSC-367 and MPSC-420 served as the
3 basis for this adjustment.

4 **Large Customer Annualization**

5 Q. What approach was taken in preparing the Staff's annualization of large customer loads?

6 A. Detailed monthly billing information was requested from the Company (Data Request No.
7 MPSC-492) for each customer that entered or exited MPS rate codes 325, 330 or 335 since
8 January 1995. These are the large service rates under which MPS provides service to
9 industrial and large commercial accounts. The confidential response to this request was
10 made available in the Company's offices, from which detailed spreadsheets were prepared
11 for the largest of such customers (those with monthly revenues consistently in excess of
12 \$10,000). An annualization was prepared based upon second quarter 1996 kwh usage and
13 revenues to determine the overall adjustment required to annualize sales to large customers
14 as of June 30, 1996.

15 Q. Why is it necessary and appropriate to annualize for large customers added after December
16 31, 1995?

17 A. The Company has commenced service to several new large customers as of June 30, 1996,
18 which is the cutoff for known and measurable changes in this Case. If such new customers'
19 loads are not recognized, along with the corresponding fuel costs, revenue requirements will
20 be overstated. In addition, consistency with Staff's June 31, 1996 cutoff for fuel costs, rate

1 base and other test period annualizations requires that customer and sale levels to be
2 annualized at the same point in time, as reflected in Staff's adjustment S-1.5.

3 Q. Are there other adjustments to revenues that you have not completed at the time this
4 testimony was prepared?

5 A. Yes. Off-system sales of power to interconnected utilities and other third parties have
6 increased significantly subsequent to calendar 1995 (Data Request No. MPSC-752). This
7 is attributable in part to the fact that the Company has focused additional resources on the
8 marketing of off-system power and MPS now uses a number of different processes to
9 promote off-system sales of available generation capacity/energy (data responses MPSC 724
10 and 616). Work is continuing at this time to quantify the annualization adjustment required
11 to reflect increasing off-system sales margins for rate case inclusion. The Company's
12 response to outstanding Data Request No. MPSC-804 is required for completion of this
13 work.

14 Q. Does this complete your direct testimony at this time?

15 A. Yes.

LORI KUMKENDALL
NOTARY PUBLIC STATE OF MISSOURI
~~JACKSON COUNTY~~
MY COMMISSION EXP. DEC. 24, 1993